



City of Grass Valley City Council Agenda Action Sheet

Title: Park Project Improvement Financing and 2014 Solar Project Lease Refinancing
- Authorizing the Financing of Public Improvements, and Approving a Lease Agreement and Related Documents and Actions

Recommendation: It is recommended that the City Council adopt Resolution No. 2021-63 Authorizing the Financing of Public Improvements, and Approving a Lease Agreement and Related Documents and Actions

Prepared by: Andy Heath

Council Meeting Date: 11/23/2021

Date Prepared: 11/17/2021

Agenda: Administrative

Background Information: In 2018, the City's electorate passed Measure E increasing the City's existing one-half cent transaction and use tax to a full one cent for such General Fund purposes as enhanced police and fire services, greater parks and recreational services, and improving streets and sidewalks.

Consistent with the intended use and as presented to the City Council on November 9, 2021, the City recommends using future Measure E revenues to fund a conceptual Parks Improvement Project ("Park Project") consisting of the design and construction up to three combination softball / baseball / soccer fields and associated improvements (lighting, parking, restrooms). Due to the unpredictability of unseasonal droughts, the fields would be state of the art artificial turf with natural infill to allow for year-round use.

The fields would allow the City and other sport organizations to facilitate tournaments (Baseball, Soccer, Lacrosse, Softball) in the City and would allow the City to capture incremental economic activity resulting from hosting sports tournaments. The current total Park Project cost estimate is approximately \$6 million.

As part of the process of identifying financing options for the City's Park Project, the City also reviewed its existing lease debt for refinancing opportunities given the current arena of very low interest rates. In December 2014, the City entered into a lease agreement with OpTerra Energy Services, Inc. for the acquisition and installation of a mechanical retrofit and energy management project (the "Solar Project"). The City financed the Solar Project through Municipal Financing Corporation with a loan in the amount of \$4,288,258, a 3.9% interest rate and a final maturity of September 24, 2035

(the “2014 Solar Project Lease”). The 2014 Solar Project Lease can be prepaid on any payment date with a prepayment penalty equal to 1% of outstanding principal balance. The current outstanding balance is \$3,986,939.

At the City’s November 9, 2021 City Council meeting, staff presented the background and analysis of financing the City’s Park Improvement Project, as well as, refinancing the City’s 2014 Solar Project lease agreement at the same time, given the low interest rate environment. The city was presented with the Park Project cost estimate and estimated annual debt service, as well as the anticipated savings on a refinancing of the 2014 Solar Project Lease. The City decided in concept to move forward with the project and necessary financing.

Analysis: The proposed funding plan includes a lease financing structure sold to a bank through a private placement. The lease financing instrument allows the City to embark on implementing the entirety of the Park Project over the next couple of years rather than piecemealing it over multiple budget cycles.

The City has identified a bank and has received an attractive low annual interest rate bid of 1.60% from Sterling National Bank for the Park Project funding with an approximate 10-year term through Fiscal Year 2031-32. In addition, the City received a rate of 2.03% for the 2014 Solar Project lease refinancing with final maturity in Fiscal Year 2035-36. The Bank has locked these rates through the December closing and through the final maturity of the loans.

Annual debt service for the \$6 million Park Project is expected to be approximately \$663,000, with the total debt service through final maturity on June 1, 2032 of approximately \$6.7 million. The loan will have an option for prepayment prior to maturity. The ~\$663,000 annual debt service payment will be paid from the Measure E Fund forecasted annual \$2.9 million allocation towards Streets and Parks.

The City can refinance the 2014 Solar Project Lease to capture annual and present value savings, while maintaining the final maturity fiscal year of the current financing in Fiscal Year 2035-36. Annual savings are anticipated to be approximately \$35,000 with cumulative savings of approximately \$530,000 and present value savings estimated at \$480,000 or 12.06% of refunded principal. These savings will help to offset new interest incurred for the Park Project debt service each year, lowering the aggregate impact of new and refunded debt paid Citywide.

The resolutions before the Council would authorize staff to proceed with this refinancing, under certain conditions, including not-to-exceed par amounts, rates and terms as follows: (i) financing for the Park Project, for a term that does not extend beyond 15 years, amortizing not to exceed \$6,150,000 principal amount, at a true interest cost attributable to the Lease Payments not exceeding 1.80%, and (ii) as to the 2014 Solar Project lease refinancing, for a term that does not extend beyond 20 years, amortizing not to exceed \$4,200,000 principal amount, at a true interest cost attributable to the Refunding Lease Payments not exceeding 2.20%.

While the City expects the actual terms and rates to be lower as previously described, staff is asking council approval to provide some flexibility to adjust the structure if needed due to unexpected market changes.

As part of the lease financing process, the City has identified assets to provide security for the 2021 lease. The asset or combination of assets were determined based on the cumulative insured value similar to the principal amount being financed. The City currently expects to use the following assets to secure the Park Project financing:

1. Police Station at 129 South Auburn St
2. Fire Station at 213 Sierra College Dr; and
3. Fire Station at 472 Brighton Street

In addition, the City will use the same leased assets as is currently pledged under the 2014 Solar Project Lease financing for the refinancing of the 2014 Solar Project Lease, which is the City's Water Treatment Plant.

Resolution 2021-63: The resolution (Exhibit A) being approved tonight authorizes staff to complete the financing of the Park Project and refinancing of the 2014 Solar Project Lease and approves forms of the documents presented under "Documents for Review and Approval."

Documents for Review and Approval: The subject resolution authorizes and directs the City Manager and other City Staff to finalize the financing documents as and when appropriate, and to do all things necessary to provide for the issuance the Park Project financing and 2014 Solar Project Lease refunding and delivery of the related lease documents, subject to the not-to-exceed parameters contained in the resolution. If the final terms for any reason should fall outside of parameters in the resolutions, staff will return for further direction before finalizing the transaction.

To complete a lease financing structure, two parties are required the City and one other. The City has identified the Public Property Financing Corporation (the "Corporation") as the counterparty for this financing transaction. The documents included with this transaction are noted below:

Lease Agreement - Agreement between City and the Corporation (the "Corporation") to sublease property back to the City in exchange for annual lease payments (which equal the debt service payments).

Site Lease - This is an agreement between the City and the Corporation providing the mechanism from which the Corporation may then lease the leased asset back to the City in exchange for the lease payments sufficient to pay debt service.

Assignment Agreement - Agreement between Corporation and Sterling National Bank (the "Bank") to assign lease payments received from City to the Bank.

Anticipated Schedule: The preliminary schedule for the aforementioned financing contemplates the following dates:

- City Council Anticipated Approval - November 23rd
- Closing and delivery of funds - Mid-December
- Redemption/Pre-Payment of Energy Project Lease - December 24th

Council Goals/Objectives: The financing of the Park Project using Measure E revenues maintains an intended use of the Measure E fund by enhancing parks and recreational services. The Park Project also allows the City to capture additional tax revenues from hosting sports tournaments.

Fiscal Impact: The financing of the Park Project results in estimated annual debt service over a 10-year period of \$663,000 with cumulative debt service paid of \$6.7 million through maturity. By including the refinancing of the Energy Project lease, the City can capture annual estimated savings of \$35,000 through fiscal year 2036 (current final maturity of the Energy Project lease). These savings offset the Park Project debt service through Fiscal Year 2032, lowering the impact of debt service paid by Measure E revenues.

Cumulative debt service savings on the refinancing of the Energy Project lease are estimated at \$35,000 with cumulative gross savings of \$530,000 and present value savings of \$480,000 or 12.06% of refunded principal.

Funds Available: N/A

Account #: N/A

Reviewed by: City Manager

Attachments:

Exhibit A - Resolution No. 2021-63

Exhibit B - Lease Agreement

Exhibit C - Site Lease

Exhibit D - Assignment Agreement